

Message Text

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TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
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FM AMEMBASSY LISBON
TO SECSTATE WASHDC 5119
INFO AMCONSUL OPORTO

C O N F I D E N T I A L SECTION 1 OF 2 LISBON 2051

E.O. 11652: GDS
TAGS: ECON ETRD PO
SUBJECT: MINISTER OF TRADE DISCUSSES ECONOMIC MEASURES

SUMMARY: GOP MINISTER OF TRADE AND TOURISM BASILIO HORTA (CDS), IN A MEETING WITH THE U.S. BUSINESS COMMUNITY, DISCUSSED THE ECONOMIC OUTLOOK AND GOP PLANS TO REDUCE THE BALANCE OF PAYMENTS DEFICIT. HORTA ALLUDED TO A NEW IMPORT LICENSING SYSTEM UNDER STUDY WHICH WOULD GIVE PRIORITY TO ESSENTIAL FOOD IMPORTS, RAW MATERIALS AND PRODUCTS FOR EXPORT SECTOR. HE NOTED THAT VARIOUS EXPORT FINANCING SOURCES WOULD BE COMBINED IN THE BANKING SECTOR, AND DESCRIBED SEVERAL GOVERNMENT INITIATIVES UNDERWAY IN THE TOURIST SECTOR. THE BUSINESSMEN APPRECIATED HORTA'S DESIRE TO HELP SOLVE THEIR PROBLEMS, BUT EXPRESSED RESERVATIONS REGARDING HIS EMPHASIS UPON GREATER ADMINISTRATIVE RESTRICTIONS IN SOLVING ECONOMIC DIFFICULTIES. END SUMMARY.

1. MINISTER OF TRADE AND TOURISM BASILIO HORTA (CDS), IN AN INFORMAL MEETING MARCH 16 WITH EMBOFFS AND REPS OF SOME 21 U.S. COMPANIES IN PORTUGAL, DISCUSSED FRAMEWORK OF GOP PLANS TO RESTRAIN BLANCE OF PAYMENTS DEFICIT AND INFLATION THIS YEAR.

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2. INTERNAL COMMERCE: HORTA STATED GOVERNMENT IS FOCUSING PRINCIPALLY ON DETERMINING "MARKET BASKET" PRICES FOR 1978 AND ON IMPORT PLANNING. THE COUNTRY'S LOW VOLUME OF FOOD PRODUCTION AND EXCESSIVE IMPORTS REMAIN MAJOR PROBLEMS. FOOD IMPORTS WOULD GENERALLY FALL SOME 10 PERCENT, PARTICULARLY FROZEN FISH AND MEAT, COD AND GRAIN. GOVERN-

MENT WOULD ACT TO RAPIDLY INCREASE DOMESTIC FOOD PRODUCTION, ESPECIALLY GRAINS AND OILSEEDS. ITEMS WITHIN "MARKET BASKET" WOULD BE MODIFIED, WITH MILK AND PORK COMING IN AND BEEF LEAVING. BULK OF GOVERNMENT SUBSIDIES FOR PRODUCTS IN THE MARKET BASKET WOULD BE CONCENTRATED ON A FEW ESSENTIAL ITEMS, SUCH AS MILK AND CHICKEN. TOTAL SUBSIDIES WILL DECLINE FROM 11.3 BILLION ESCUDOS IN 1977 TO 8.5 BILLION IN 1978. PL-480 IMPORTS WOULD CONTINUE TO PLAY A VITAL ROLE IN 1978. GOP WILL INCREASINGLY SEEK BARTER ARRANGEMENTS WHEREBY FOREIGN SUPPLIERS WILL BE ASKED TO PROVIDE EXPORT MARKETS FOR PORTUGUESE GOODS.

3. PRICES: HORTA - SENSITIVE TO COMPANY CONCERNS OVER SQUEEZED PROFIT MARGINS - DENIED ANY INTENT OF GOP TO CONSTRAIN THESE MARGINS BELOW PRESENT LEVELS. HE CONFIRMED, HOWEVER, GOVERNMENT INTENT TO REFUSE COMPANY REQUESTS FOR PRICE INCREASES THAT ARE BASED ON RETROACTIVE PAY RAISES OF MORE THAN TWO MONTHS OR ON WAGE INCREASES THAT EXCEED THOSE ESTABLISHED IN COLLECTIVE LABOR CONTRACTS. HORTA NOTED PRICE CONTROLS WILL EXTEND TO SOME ESSENTIAL PRODUCTS HERETOFORE NOT SUBJECT TO CONTROLS.

4. FOREIGN TRADE: HORTA VIEWED EXCESSIVE IMPORTS AS THE MAJOR CURRENT PROBLEM IN FOREIGN TRADE SECTOR. GOP EFFORT TO REDUCE CURRENT ACCOUNT DEFICIT TO RANGE OF \$900 MILLION - \$1 BILLION IN 1978 WILL CLEARLY NECESSITATE
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ADMINISTRATIVE MEASURES TO CONTAIN IMPORTS, ALTHOUGH HORTA SAID HE WOULD NORMALLY PREFER TO USE MARKET MECHANISM. HE DESCRIBED PRESENT CRITERIA FOR LICENSE ISSUANCE, BASED ON 90 PERCENT OF 1977 ESCUDO IMPORT LEVELS (LISBON 1455), AS IRRATIONAL AND INDISCRIMINATE, BUT NECESSARY IN PRESENT CIRCUMSTANCES. HE NOTED THAT GOVERNMENT NOW STUDYING A NEW SYSTEM OF IMPORT LICENSING WHICH WOULD BE BASED ON CATEGORIES OF PRODUCTS. PRIORITY WOULD BE GIVEN TO IMPORTS OF ESSENTIAL FOOD ITEMS, RAW MATERIALS, PRODUCTS FOR EXPORT SECTOR, AND MISCELLANEOUS SMALL ITEMS ESSENTIAL TO INDUSTRIAL SECTOR. OTHER CATEGORIES, PARTICULARLY CONSUMER GOODS AND EVEN SOME CAPITAL GOODS WOULD GENERALLY SUFFER. HORTA HOPED THE NEW LICENSING SYSTEM WOULD BE READY FOR IMPLEMENTATION WITHIN TWO MONTHS. AT THAT TIME, HE WOULD HOPE TO REMOVE SOME OF THE CURRENT RESTRICTIONS ON ABOVE-MENTIONED PRIORITY AREAS. HE BELIEVES PORTUGAL WILL REQUIRE IMPORT CONTROLS FOR NEXT 1-1/2 YEARS.

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C O N F I D E N T I A L SECTION 2 OF 2 LISBON 2051

5. EXPORT INCENTIVES: HORTA WAS HIGHLY CRITICAL OF LIMITED EFFORTS IN PAST TO PROMOTE EXPORTS. HE SUGGESTED THAT PRESENT GOVERNMENT WILL SEEK A VARIETY OF MEASURES TO STIMULATE THE EXPORT SECTOR . IN PARTICULAR, HE NOTED THAT THE VARIOUS EXPORT FINANCING SOURCES WILL BE COMBINED IN THE BANKING SECTOR. PRESENTLY THEY ARE INEFFECTIVELY DISPERSED AMONG THE BANKS AND SEVERAL MINISTRIES. HORTA WAS PARTICULARLY CRITICAL OF THE OFFICIAL EXPORT AGENCY (FUNDO DE FOMENTO DE EXPORTACAO), NOTING IT HAS A BUDGET OF \$25 MILLION, BUT DOES LITTLE IN WAY OF GENERATING EXPORTS. HE COMMITTED HIMSELF TO TAKE A PERSONAL INTEREST IN COMPANY PROPOSALS TO GOP WHICH INVOLVE EXPORT PROMOTION. IN STRESSING THE NEED TO SEEK NEW OR EXPANDED FOREIGN MARKETS, HORTA AGAIN RELIED ON BARTER PHILOSOPHY. HE IMPLIED THAT PORTUGAL WILL FAVOR IMPORTS FROM THOSE COUNTRIES WHICH, IN TURN, OFFER OUTLETS FOR PORTUGUESE EXPORTS.

6. TOURISM: HORTA NOTED FOLLOWING GOVERNMENT INITIATIVES UNDERWAY IN TOURIST SECTOR: 1) COMPLETION OF TOURIST FACILITIES WHOSE CONSTRUCTION HAS BEEN SUSPENDED SINCE APRIL 1974 REVOLUTION. HORTA SAID THESE PROJECTS WILL YIELD SOME 4,000 ADDITIONAL BEDS WITHIN ONE YEAR, WITH RELAT-
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TIVELY LITTLE INVESTMENT AND SIGNIFICANT EMPLOYMENT BENEFITS. 2) INVENTORY OF EXISTING HOTELS TO DETERMINE WHICH CAN BE EXPANDED. THESE CAN PROVIDE ADDITIONAL FACILITIES

WITH CONSIDERABLY LESS INVESTMENT THAN BUILDING COMPLETELY NEW COMPLEXES. 3) SPECIAL PROGRAMS TO ENCOURAGE CONTINUOUS USE OF TOURIST FACILITIES, E.G. CHRISTMAS, EASTER PERIODS. HE ESTIMATED THAT 1978 TOURIST RECEIPTS WOULD REACH 20 MILLION CONTOS (APPROXIMATELY \$500 MILLION AT CURRENT EXCHANGE RATE). HORTA EMPHASIZED IMPORTANCE OF DEVELOPING THE SECTOR BY NOTING THAT A TRIPLING OF CURRENT TOURIST RECEIPTS WOULD RESOLVE PORTUGAL'S BALANCE OF PAYMENTS PROBLEM.

7. COMMENT: THE BUSINESSMEN INTERPRETED THE MINISTER'S MEETING WITH THEM AS A SIGNIFICANT GESTURE OF GOODWILL. THEY WERE IMPRESSED BY HIM AS AN INDIVIDUAL, BY HIS SELF-CONFIDENT PRESENTATION, AND BY HIS EXPRESSED DESIRE TO HELP SOLVE THEIR PROBLEMS. THEY DID NOT, HOWEVER, WELCOME HIS REFERENCES TO GREATER ADMINISTRATIVE RESTRICTIONS DESIGNED TO DIMINISH THE COUNTRY'S BALANCE OF PAYMENTS DEFICIT. SIMILARLY, HIS REMARKS PROMISING RAPIDLY INCREASED AGRICULTURAL PRODUCTION AND HIS ANALYSIS OF TOURISM'S POSSIBLE IMPACT ON THE BALANCE OF PAYMENTS SOUNDED A BIT SIMPLISTIC. IN FACT, THE MINISTER'S COMMENTS REINFORCED THE IMPRESSION WE HAD FORMED OF OTHER CDS MEMBERS WHO RECENTLY ENTERED THE GOVERNMENT. THESE MEN APPARENTLY HAVE BROUGHT WITH THEM A PREFERENCE FOR ECONOMIC CONTROL RATHER THAN LIBERALIZATION, A PREOCCUPATION WITH IMMEDIATE DETAILED QUESTIONS RATHER THAN GLOBAL POLICY ISSUES. THEY MAY COMPLICATE, NOT EASE, EFFORTS TO USE LIBERAL MARKET METHODS TO ATTACK PORTUGAL'S BALANCE OF PAYMENTS PROBLEMS. ON BALANCE, HOWEVER, THE MEETING STRUCK A SYMPATHETIC CHORD WITH THE BUSINESSMEN, ONE WHICH COULD BE EXPLOITED

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IN THE FUTURE IF THE GOP WISHES TO DO SO.
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Message Attributes

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